



Section 7

Public Works Board

Public Works Construction Loan Program

The Public Works Construction Loan Program, (PWCLP), is one of four statutorily authorized programs administered by the Public Works Board (Board) and financed through the Public Works Assistance Account (PWAA). The PWCLP is a low interest loan fund designed to help local governments finance critical public works projects. The Board also provides technical assistance to help local governments plan, apply, and qualify for loans and financing guarantees from the Board, and improve their ability to plan for, finance, acquire, construct, repair, replace, rehabilitate, and maintain public facilities.

HB 1785 focuses on the performance of projects that directly affect the quality of water, such as sanitary sewer upgrades, storm sewer improvements, and solid waste management. While these three types of projects are eligible for financing by the Public Works Board, they typically account for less than one-half of the annual list of construction projects. Water system improvements represent over 45 percent of each list, and road and bridge projects usually account for another 10 to 15 percent.

General Statutory Provisions

RCW 43.155 governs the management of the Construction Loan Program.

Eligible Recipients and Activity

Cities, counties, and special purpose districts that are repairing or constructing water systems, sewer systems, storm sewer systems, roads and streets, bridges, and solid waste/recycling systems are potentially eligible for a PWB loan. All jurisdictions must have approved capital facility plans for all of the systems they operate. To qualify for financing, cities and counties must be imposing the local portion of the Real Estate Excise Tax (RCW 82.46) and be in compliance with the Growth Management Act (RCW 36.70A.040).

The Board must develop a priority process for selecting projects in order to “...maximize the value of public works projects accomplished with assistance.” The Board must further attempt to assure a geographical balance in selecting projects and is authorized to consider the following factors in that process:

- ⌘ If the local government has experienced severe fiscal distress;
- ⌘ If the project is critical in nature and would affect the health and safety of a great number of citizens;

- €# The cost of the project compared to the size of the local government and the amount of loan money available;
- €# The number of communities served by or funding the project;
- €# If the project is located in an area of high unemployment, compared to the average state unemployment;
- €# If the project is the acquisition, expansion, improvement, or renovation of a public water system that is in violation of health and safety standards;
- €# The relative benefits of the project to the community, considering the present level of economic activity in the community and the existing local capacity to increase local economic activity in communities that have low economic growth; and
- €# Other criteria that the Board considers advisable.

The Legislature retains final control of the selection and financing of construction projects. Prior to signing any contracts for selected projects, the Legislature must provide an appropriation for a specific list of projects. The Legislature may remove projects from the list but they cannot add projects to the list.

Funds Appropriation History

Funds appropriated for the Public Works Trust Fund for the current and prior two biennia are shown in the table below.

Public Works Trust Fund Appropriation History

Biennium	Total Appropriation	Construction Program	HB 1785 Subset
1997-99	\$220,900,000	\$202,900,000	\$90,200,000
1999-01	\$320,500,000	\$290,500,000	\$109,600,000
2001-03 *	\$230,300,000	\$206,300,000	\$109,800,000

* The Board received a \$93 million supplemental authorization by the Legislature in FY 2001 and is likely to request additional supplemental authority for FY 2003. However, the exact figure has not been determined.

It is important to note that HB 1785 and the performance audit that initiated the legislation only focused on sanitary sewer, storm sewer, and solid waste projects. This accounts for about half of the construction loans executed and about half of the funds committed each cycle.

For additional information on the Public Works Trust Fund, its programs, resources, and policies, visit www.pwb.wa.gov. For more information about infrastructure financing in general, visit www.infrafunding.wa.gov.

Program Implementation of HB 1785

Consultation with Affected Interested Groups

The Public Works Board has kept local governments, advocate organizations, and partnering agencies informed of its intent to implement HB 1785 throughout its programs and across all systems. The Board, along with several other agencies affected by HB 1785, conducted workshops on the implementation process at the Infrastructure Assistance Coordinating Council's (IACC), 2001 fall conference in Wenatchee. The IACC is a Board consisting of lead staff from state and federal agencies responsible for operating state and federal grant and loan programs. IACC Board staff also included the implementation strategy as part of the six application workshops conducted in March 2002. The Construction and Pre-Construction Loan Program combined application was updated in January to include the requirements for data from local governments that would allow the Public Works Board to comply with its statute. All applicants for the 2003 Construction Loan Cycle and the 2003 Pre-Construction Loan Program must provide this information.

To date, the Public Works Board has received no stakeholder feedback. In part, this is due to the "statutory" nature of the requirement that tends to diminish feedback. However, the Board has emphasized the value of providing project-specific performance measures with the applications for the local governments. This information will be very helpful to local government officials as they explain what is being done with local resources and what impacts those investments will have on the community. Also, the minimal increase in the amount of information needed from the local government applicants diminished their concern about providing such data.

Consultation with Other Natural Resource Agencies

The Public Works Board participates on the committee developed by the Office of Financial Management to coordinate efforts and prepare reports relating to HB 1785. The Board is also represented on the ad hoc coordination committee created by the programs after the passage of HB 1785. In addition, the Board is a member of the Infrastructure Assistance Coordinating Council. Several other programs impacted by HB 1785 are also members, and these programs conducted a joint workshop at the IACC's 2001 fall conference.

The Board intends to work closely with the other environmental agencies cited in the bill and other agencies that have either regulatory authority over the infrastructure systems financed through the Public Works Trust Fund or contractual agreements associated with these systems. At a minimum, these agencies include the Department of Ecology, Department of Health, U.S. Environmental Protection Agency, U.S. Army Corps of Engineers, Washington State Department of Transportation, the Transportation Improvement Board, and the County Road Administration Board. The Board plans to coordinate the monitoring and evaluation of project-specific performance measures with these other agencies. This will minimize the additional costs associated with performance evaluation and ensure consistency among funding partners and their local government clients.

Performance Measures for the Public Works Board Program

HB 1785 directs the Board to develop outcome-focused performance measures and to require recipients of construction loans to incorporate the environmental benefits of their projects into their applications. The Board is to use these statements in prioritizing and selecting projects. The Board is also to use performance measures to assess the management and performance of the loan program itself.

The Public Works Board has measured its performance and the performance of its programs since 1999, as directed by the Governor's endorsement of the Balanced Scorecard management approach. HB 1785 accelerated the Board's movement towards outcome measurement of its work and the impacts of the work of local government applicants. The Board also felt that the value of a performance-based selection extended beyond the projects that address water quality and decided to use the process for all applications.

The table below lists the performance measures and their status, adopted by the Public Works Board for 2002 to guide its investment and management decisions. These measures are, on the whole, output- (as opposed to outcome-) measures, such as processing contracts, completing surveys and reports, and recruiting new applicants. The Board will continue to develop outcome-focused performance measures throughout the balance of calendar year 2002 and will issue new performance measures to guide its work throughout calendar year 2003.

Public Works Board Performance Measures

January 1, 2002 – May 15, 2002

Performance Measure	Status – 5/15/02	Comments
Execute 125 contracts	73 executed	DWSRF/Pre-con/Planning/Emergency will ensure the 125 by 12/31/02
Execute 20 contract extensions	3 executed	20 – 25 are expected by the end of year
Execute 50 contract amendments	11 amendment	Anticipate reaching 30 by the year's end
Process 500 vouchers	159 for \$42 million	Estimate was changed from 750 to 500 (initial estimate too high)
Close-out 75 PWTF contracts	56 contracts closed	On schedule to close-out 75 – 90 PWTF contracts
Staff receives 320 hours of training (cumulative)	145 hours	Anticipate adding hours in second half of the year
Conduct 75 site visits	45 visits done	Final tally will be closer to 100
Process 1,000 loan repayments totaling \$60 million		Estimating 900+ PWTF repayments – June and 150 DWSRF -Oct
Attend five conferences to market programs	One attended	Cities and counties in June. Two more in the Fall.
Identify maximum resources for 2003 loan cycle	Underway	
Secure long-term funding for CERB	Done	Legislature approved transfer of PWTF and authorized interest earnings

Public Works Board Performance Measures (continued)

Performance Measure	Status – 5/15/02	Comments
Pursue \$20 million in federal funding	Underway	Continue to work with BPA, NWPPC, EPA to find and secure funds
Have 2002 loan list approved by the Legislature	Done	List approved with no concerns or changes
Implement HB 1785	On schedule	Report sent to OFM indicating that the implementation is on schedule
Implement recommendations of performance audit	On schedule	Reported to the Board at May retreat – implementation plan approved
Have Board consider by-laws	2 nd draft underway	Board will consider 2 nd draft at June Board meeting
Complete the revision of the CTED MOU	Underway	Board has formed committee and will begin meeting with CTED in May
Implement HB 1204	Underway	Data entry is backlogged due to staff being on maternity leave
Pass state and federal audits, comply with standards	3 audits complete	No findings or recommendation from three separate audits
Conduct a survey of eligible applicants	To be done	Survey will be done in the Fall
Conduct 25 “debriefings” with potential clients	15 meetings	On schedule – expect significant number after 2003 review is over
Have 20 “new” clients apply for financing - PWTF	2 new construction	This may have been optimistic given past increases
Conduct 1 Board retreat and up to 10 Board meetings	On schedule	Retreat done – 3 meetings held 2 cancelled. 6 still planned
Update the Board’s website	Underway	First draft reviewed at Board retreat – Operational by 12/31/02
Submit an approvable budget for 2003-05	Underway	Board reviewed at Retreat – Revisions due by June meeting
Submit 2003 loan list as scheduled	Underway	106 applications - \$230 million received. Submittal plan on schedule
Complete the DWSRF – NIMS report	Underway	
Update WACs as needed	Uncertain on need	Assessing the need to update
Ensure operations and management satisfy the Board	Underway	Performance audit indicates satisfaction – will resurvey in the Fall

Performance Measures for the Loan Applications and Recipients

The Public Works Board decided to implement the requirements of HB 1785 over three funding cycles. This would give local governments adequate time to learn about and address performance measurement as a component of the financing process. During the 2002 Construction Loan Cycle, jurisdictions were told that future cycles would include a performance-based selection process. The data elements to be used to implement the process are being field tested during the 2003 cycle, and full implementation is due to begin with the 2004 cycle.

To meet the intent of HB 1785, additional questions and instructions were also added to the 2003 Construction Loan Application. (The revised Loan Application Form can be found at http://www.pwb.wa.gov/pwtf_construction_pg.htm). The Board is asking applicants to identify their primary reason(s) for applying for funding and one or more measurable outcomes related to their reason(s). This approach both tests questions that the Board staff thinks are relevant and gives applicants the opportunity to determine how they will be measured in the future. More than 100 jurisdictions reviewed the questions during the six workshops conducted in March 2002, and 71 jurisdictions submitted 106 applications in May 2002 with the new performance measures.

For the 2003 cycle, the information on performance measures provided by the applicants will not impact the prioritization process. Per the Board's tradition of giving jurisdictions several years to adapt fully to new selection criteria, the Board will use the 2003 submittals to develop a comprehensive training program to bring local governments up-to-speed in the area of describing project performance measures. Responses in the 2004 application will be used to select and prioritize applicants.

The Board has several options for using the performance measure information in the selection process. At a minimum, it will be included among the eight criteria already used by the Board for prioritizing applications. These factors have been used in the past by the Board to tailor the construction loan list to meet a Board objective. In the past, projects in eastern Washington have been selected in order to achieve a geographically balanced list. Projects from an under-represented system, e.g. solid waste, have been selected in order to achieve a more system balanced loan list.

In addition, staff is exploring the option of using the information within the "need" component of the scoring system. "Need for the project" represents 40 percent of the total application score, and local effort to manage and maintain the system accounts for the other 60 percent. Staff is considering applying points to the answers dealing with the impacts that would be achieved if the need were met. Depending on its assessment, staff will recommend modifications to the scoring process for the 2004 Cycle.

The Public Works Board believes that the value of a performance-based project selection process would be seriously limited if the approach did not extend into the contracting and evaluation processes. Therefore, the Board will use the performance measures found in the 2003 applications from successful jurisdictions to create the contractual scopes of work with these jurisdictions. Variations from the measures initially proposed by the applicant may be negotiated between the Board and the local government. However, once approved by the Board and the local governments, these performance measures will be included in the contracts. The Board intends to use existing regulatory agencies (Departments of Ecology, Health, and Transportation, the Environmental Protection Agency, and the Army Corps of Engineers) to monitor and evaluate the performance of the local governments, beginning in 2007.

The Board expects the first evaluations to take place in 2007 because it will take that long for projects initiated in 2003 to be completed and have at least one year of operation before they are ready for evaluations. The timeline will be shortened when possible.

In addition, the Board is working to develop a strategy to deal with projects that fail to meet their performance expectations. Without consequences, a performance-based approach is likely to have little impact. The results of these deliberations will be discussed with constituent groups prior to their implementation.

Recommendations for a Monitoring Program

The Public Works Board is implementing a performance-based selection and prioritization process that will affect all of its programs, eligible clients, and eligible systems. The breadth of this commitment requires the Board to work with a large array of agencies (DOE, DOH, WaDOT, TIB, CRAB, EPA, ACE, etc.) that already assess the environmental, health, safety, and system performance impacts. The Board does not intend to create an evaluation team within its own ranks but rather will use pre-existing measures of impact that are already assessed by these other agencies. This is similar to how many lenders in the residential construction industry use local building code officials to inspect and approve construction prior to releasing funds.

Using other agencies' pre-existing measures will make the evaluation process more efficient and effective. The Board will begin working with these agencies as the 2003 loan recipients are identified in order to establish a formal working relationship and to identify the costs of monitoring and evaluation. The Board is also prepared to contract with non-governmental specialists (e.g. Boise State University's Environmental Finance Center) to conduct evaluations in cases where no other state or federal agency is able or willing to assist.

The Board will work with its local government partners to establish "mainstream" measurements whenever possible. These are measurements that are regularly associated with the performance of a particular system and are regularly monitored by a regulatory or oversight agency. However, when the most appropriate measurement does not fall within the "mainstream," the Board will work with the local government to identify how and who should conduct the monitoring and evaluation. This may require a special contract with an independent, highly technical organization. The Board will bear the costs of these evaluations, and, as such, the Board will work to minimize their number and their cost.

Barriers To Fully Implementing HB 1785

The Public Works Board does not see any barriers to implementing HB 1785. There are a number of unknowns that may affect the speed with which implementation occurs, such as the ability of local governments to comprehend and develop effective performance measures, the willingness and ability of state and federal agencies to evaluate performance for the Board, and the overall cost of implementing HB 1785. The Board's implementation plan is designed to address these issues as they emerge.